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United Nations Industrial Development Organization

Industrial Development Board

Tenth session

SUMMARY RECORD OF THE 2nd MEETING

Held at the Vienna International Centre, Vienna,
on Monday, 2 November 1992, at 3 p.m.

President: Mr. BALAZS (Hungary)
later: Mr. EL-HUSSEIN (Sudan)

CONTENTS

Agenda item		Paragraphs
-	Organization of work	1 - 13
4	Report of the Programme and Budget Committee (continued):	14 - 72
	(a) Report of the External Auditor, financial performance report and programme performance report for the biennium 1990-1991 (continued)	
	(b) Use of unutilized balances of appropriations (continued)	
	(c) Implementation of the recommendations of the External Auditor for the financial period 1988-1989 (continued)	
	(d) Financial situation of UNIDO (continued)	
	(e) Application of the split-currency system of assessment (continued)	
	(f) Operational budget: reimbursement for programme support and administrative services (continued)	
	(g) Guidelines and procedures governing acceptance and funding under special trust funds, Industrial Development Fund and the regular budget (continued)	
	(h) Medium-term plan, 1994-1999 (including general ceiling for the biennium 1994-1995) (continued)	
	(i) Industrial Development Fund and other voluntary contributions (continued)	
	(j) Electronic data-processing programme (continued)	
	(k) Financial regulation 4.1, paragraphs (d) and (e) (continued)	
	(l) UNIDO Country Director programme (continued)	

The meeting was called to order at 3.25 p.m.

ORGANIZATION OF WORK

1. The PRESIDENT informed the Board that the Bureau, at its first meeting, had discussed how best to organize the informal in-session consultations which the Board had decided to set

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Distr.: 6 November 1992

up under his own chairmanship with the aim of reaching a consensus on agenda item 16. The Bureau recommended that a round of informal consultations with open-ended participation should take place immediately, in principle from 3.30 to 5 p.m. After that, he would decide on an appropriate follow-up which he suggested, with the Bureau's support, might take the form of a series of consultations or contacts with individual groups, to be held on Tuesday without the participation of the Secretariat, each group being on an equal footing. He would see whether that suggestion met with general approval during the first round of consultations. Upon completion of the consultations, he would review the results with the members of the Bureau at a meeting to be held at 6 p.m. on Tuesday. In that connection, he informed the Board that since the procedure had not been foreseen, no interpretation could be provided. On Wednesday, as decided by the Board, he would report to the plenary on the progress achieved.

2. Mr. TALIANI (Italy) pointed out that, while he agreed in principle with the approach outlined by the President, he did not consider that the Bureau was empowered to take any decision on the matter. The President himself should report to the Board on the results of the consultations.

3. Mr. TREMEAU (France) expressed some surprise at the procedure outlined by the President. While it was perfectly normal to conduct informal open-ended consultations among all Member States, the holding of separate talks with the regional groups represented an innovation which gave him some cause for concern, since it might lead to clashes between groups. While he would not oppose the proposed procedure if it met with general approval, he had doubts about its advisability, particularly as it would be conducted in a single language.

4. Mr. ARIAS-SALGADO (Spain), associating himself with the previous speaker, said he failed to see the advantage, after holding open-ended consultations, of proceeding to conduct separate regional consultations, which appeared to be superfluous in the circumstances.

5. Viscount VILAIN (Belgium) supported the immediate holding of informal open-ended consultations. With regard to the proposed second stage, however, he shared the concern expressed by previous speakers, since he too failed to see what advantage would be gained. On the contrary, there was a danger that rigid regional positions might crystallize, giving rise to unnecessary difficulties. Furthermore, the matter was not one which should be dealt with by the Bureau; it was for the Member States themselves to come to a decision. He therefore suggested that the President should proceed to hold consultations and report back to the Board on Wednesday.

6. Mr. LONSMANN-POULSEN (Observer for Denmark) agreed that informal open-ended consultations should begin at once. He understood that the President would reserve his position on the follow-up until he knew the results of those consultations, which seemed a reasonable basis to start on.

7. Mr. MAAJI (Nigeria) endorsed the President's approach which consisted in holding informal open-ended consultations immediately and then proceeding to group consultations.

8. Mr. QUIJANO (Observer for Colombia) said he wished to comment on the proposed procedure since his country at present held the chairmanship of the Latin American and Caribbean group. In that connection, he was concerned by the statement that the Secretariat did not intend to provide interpretation: in his view, considering both present and future circumstances, interpretation was necessary. He agreed that informal open-ended consultations should begin at once and that the next stage in the procedure should be determined in the light of the results.

9. The PRESIDENT said that the sole purpose of the first round of consultations was to identify the positions of the different Member States and to take soundings as to which of the solutions put forward enjoyed the widest support. The follow-up he had suggested was, perhaps, new and surprising, but the Board was faced with unusual circumstances. He had suggested that approach because it seemed to him that the positions of the various groups were of importance in a situation in which divergencies were already discernible. However, he would take no initiative unless it enjoyed general support. He understood that the Board was ready to agree by consensus to begin informal open-ended consultations immediately.

10. It was so decided.

11. Mr. EL-HUSSEIN (Sudan) took the Chair.

12. The PRESIDENT recalled that the Bureau had also discussed the question of how to deal with the draft decisions and had recommended that, as at previous sessions, the Board should hold informal in-session consultations with a view to reaching consensus on draft decisions before they were submitted to the plenary. For that purpose all members of the Board were urged to participate in the consultations, which would cover items 3 to 10 and 12 to 14, while draft decisions on items 11, 15 and 16 would be considered by the plenary upon recommendation of the Bureau. The Bureau had recommended that Ambassador Machado Quintella (Brazil), in her capacity as Vice-President, should be entrusted with the task of chairing the consultation meetings, which would not take up any draft decision until the debate on the subject had been concluded in plenary. It was suggested that the consultations should start on Wednesday morning and be completed by Thursday evening. Texts of draft decisions should be submitted to the President no later than Thursday, 5 November, at 6 p.m. He took it that the Board wished to adopt that procedure.

13. It was so decided.

REPORT OF THE PROGRAMME AND BUDGET COMMITTEE (continued) (IDB.10/14):

(a) REPORT OF THE EXTERNAL AUDITOR, FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT FOR THE BIENNIUM 1990-1991 (continued) (IDB.9/10 and Corr.1 and 2; IDB.10/3, 4, 11 and Add.1, IDB.10/25)

(b) USE OF UNUTILIZED BALANCES OF APPROPRIATIONS (continued)

(c) IMPLEMENTATION OF THE RECOMMENDATIONS OF THE EXTERNAL AUDITOR FOR THE FINANCIAL PERIOD 1988-1989 (continued) (IDB.10/6/Rev.1, IDB.10/26)

(d) FINANCIAL SITUATION OF UNIDO (continued) (IDB.10/9, 27)

(e) APPLICATION OF THE SPLIT-CURRENCY SYSTEM OF ASSESSMENT (continued) (PBC.8/11)

(f) OPERATIONAL BUDGET: REIMBURSEMENT FOR PROGRAMME SUPPORT AND ADMINISTRATIVE SERVICES (continued) (IDB.10/7, 8)

(g) GUIDELINES AND PROCEDURES GOVERNING ACCEPTANCE AND FUNDING UNDER SPECIAL TRUST FUNDS, INDUSTRIAL DEVELOPMENT FUND AND THE REGULAR BUDGET (continued) (IDB.10/10)

(h) MEDIUM-TERM PLAN, 1994-1999 (INCLUDING GENERAL CEILING FOR THE BIENNIUM 1994-1995) (continued) (IDB.10/5 and Add.1, IDB.10/29)

(i) INDUSTRIAL DEVELOPMENT FUND AND OTHER VOLUNTARY CONTRIBUTIONS (continued) (IDB.9/10, chap. VIII, paras. 14-20 and appendix G; IDB.10/2)

(j) ELECTRONIC DATA-PROCESSING PROGRAMME (continued) (IDB.10/30)

(k) FINANCIAL REGULATION 4.1, PARAGRAPHS (d) AND (e) (continued)

(l) UNIDO COUNTRY DIRECTOR PROGRAMME (continued) (IDB.10/34)

14. Mr. HELLER (Mexico) noted with concern the continuing deterioration of UNIDO's financial situation, which was due not only to the late payment of assessments, the impact of the new arrangements for technical cooperation costs and the fall in the value of the dollar, but also to the increased costs associated with the acquisition of an electronic data-processing system, mistakes in the estimation of income and poor management of resources. The result was a crisis unparalleled in the United Nations system, with adverse effects on both the regular and the operational budgets.

15. With regard to the regular budget, the high level of arrears boded ill for the future of UNIDO: they amounted to $79 million, or 70 per cent of the 1992 assessment. The cash-flow analysis indicated that by the end of the year unliquidated obligations would reach $9 million and the deficit $13.5 million, which would either have to be financed by a supplementary budget or carried over to the following biennium.

16. With regard to the operational budget, the picture was even more critical as a result of the new UNDP programming cycle and the impact of the new system for the reimbursement of technical cooperation costs. The deficit in the operational budget would reach $5.9 million by the end of the year, which would have to be covered by non-distributed and statutory reserves. Since those reserves had amounted to $9.7 million at the beginning of the year, 60 per cent of them would have been used up by the end of 1992, leaving only some $3.7 million for 1993. If current trends continued, that meant that by the second half of next year the operational budget would not have sufficient resources to meet the Organization's financial obligations.

17. At its eighth session, the Programme and Budget Committee had adopted conclusion 92/5 (IDB.10/14, para. 16), calling upon the Director-General to balance the budget by the end of 1993 at the latest. That was a step in the right direction, but it should be backed up by a decision to reallocate resources from the departments providing administrative services and support to those that carried out substantive activities, such as technical cooperation and industrial promotion.

18. The Director-General should continue to take additional contingency measures to cope with the Organization's financial crisis. However, in the view of the Mexican delegation, a lasting solution could only be found through political will on the part of Member States and cooperation by the staff. It was no longer possible to argue that UNIDO was failing to obtain sufficient funding because of its poor management of the limited resources at its disposal: that could only lead to a final collapse. The forthcoming change in the leadership of the Organization, in accordance with procedures to be adopted by the Board, offered an opportunity for a new injection of resources and for the establishment of transparent management methods, essential to the restoration of UNIDO's credibility.

19. Mrs. OK (Turkey) said that it emerged clearly from the reports submitted under agenda item 4 that UNIDO faced a serious financial shortfall caused, inter alia, by the failure of Member States to honour their financial commitments. Despite the total appropriations approved by the General Conference for activities to be financed from the regular budget, in 1991 UNIDO had continued to suffer cash-flow problems. Moreover, the decreasing operational budget could no longer be relied upon to cover any shortfall in the regular budget on account of the loss of income following the introduction of tripartite cooperation and successor arrangements by UNDP.

20. It was the responsibility of Member States, together with the Secretariat, to work out a viable system of funding for the Organization's current and future activities. First of all, however, the Secretariat would need to provide accurate figures and make realistic projections for operational budget income between 1992 and 1995. Given the progress already made in the projections for the 1994-1995 programme and budget, she hoped that such information might be made available at the current session.

21. In conclusion, she expressed her appreciation of the report prepared by the Secretariat on the UNIDO Country Director (UCD) programme. She also requested the Director-General to continue consultations with UNDP in order to ensure that as many UNDP-funded posts as possible would be maintained in the fifth programming cycle.

22. Mr. BALAZS (Hungary) said that despite the numerous problems facing countries in his region as a result of the political changes of recent years, his Government maintained its commitment to UNIDO, as borne out by its increased pledge to the Industrial Development Fund. In his view, there were four main reasons for the Organization's current financial problems, namely: the decrease in the UNDP operating fund; the failure of Member States to honour their financial commitments; the top-heavy structure of the Organization; the ill-advised design and purchase of the electronic data-processing systems. In order to resolve such problems, greater attention should be paid to

strategies and priorities in relation to the Organization's structure and budget respectively.

23. While appreciating the report contained in document IDB.10/29, he considered that UNIDO's contribution should focus on the promotion of industrial development, including the formulation of regional and national industrial policies and the implementation of energy-saving and environment-friendly technologies. In that connection, he suggested that the following six priorities should be taken into account: technical assistance and cooperation; better use of existing industrial capacities; action-oriented feasibility studies as well as statistical and market- or product-oriented studies; helping and accelerating the transition of the industries of the centrally planned economies to market-oriented economic systems; human resource development through training; industrial investment promotion. He did not consider the fifth priority activity proposed in paragraph 9 of document IDB.10/29 to be appropriate, since "information and coordination" were methods rather than objectives.

24. In conclusion, he said that the revised draft medium-term plan for 1994-1999 (IDB.10/5) was rather too ambitious and should be revised to take account of real budgetary possibilities.

25. Mr. TRAXL (Austria) said that the report of the Programme and Budget Committee addressed a number of issues which were closely related to his country's main concern, which was that UNIDO should be steered through its current difficulties and adapted to the new challenges faced so that it could successfully play its role in a changed environment.

26. Referring to the financial situation of UNIDO, he drew attention to the arrears amounting to 70 per cent of the assessment for 1992. He reiterated his country's earnest commitment to honour its financial obligations. The attitude of some member countries was exasperating to those countries that lived up to their obligations. As a means of enhancing discipline in that area, he suggested that concrete incentives and penalties be established, particularly since the current system seemed to favour those who did not respect deadlines for contributions. An efficient organization required efficiency on the part of its Members. The problem of unpaid or delayed contributions and its consequences for the day-to-day running of UNIDO had distracted attention from the establishment of strategies for the Organization.

27. Another matter of major concern was the sharp shortfall in income in the operational budget due to a radical decline in support reimbursements earned from UNDP in the transition to the new successor arrangements. It was to be hoped that the situation would improve as the parties concerned became familiar with the new methods. However, the successor arrangements were designed to relate more directly to the type of services actually provided in implementing a project, and that pattern would also change. UNIDO would therefore have to make the necessary adjustments in its structure and operations in order to adapt to the new situation.

28. In the circumstances, it was essential to support all measures which would alleviate the burden of the financial situation in order to prevent the activities of the Organization grinding to a halt. In that regard, he endorsed the suggestions of the External Auditor for the use of unutilized balances of appropriations in the Working Capital Fund. He also endorsed the suggestions for amendments to the financial regulations made by the Director-General (see document IDB.10/25).

29. In general, he stressed the need for a clear distinction between emergency measures and longer-term strategies. For instance, it was important to distinguish between staff reductions which would enhance the overall efficiency of the Organization and temporary measures to alleviate current financial difficulties. Owing to staff shortages the Organization was sometimes unable to comply with the requests of Member States for technical assistance. Restructuring of the Organization should be based on the definition of priorities.

30. Zero real growth, although it was currently a necessity, should not be established as a principle per se. The tasks UNIDO was called upon to fulfil were no fewer than before, although global changes might require their revision and redefinition.

31. Questions regarding prioritization and specialization, which might have long-term implications for UNIDO, should not be decided on the basis of a financial crisis. During the informal debates held on the subject since the last session of the Programme and Budget Committee, wide-ranging and sometimes diverging views had been expressed. Although progress in the area was slow for the time being, the discussion must be continued. A specialization which reflected UNIDO's particular advantages and catered for the new requirements of developing countries would be very important for the future success of the Organization.

32. The main challenge was to identify the external and internal conditions within which UNIDO should function and to provide it with a set of clear and well-defined policy guidelines which would be easy to implement. The concrete measures taken to implement those policies and their subsequent translation into administrative decisions should be largely the responsibility of competent management, invested with sufficient powers. Inspiration might be drawn from the relationship between shareholders and management in private enterprise. The demand that would be made on the quality of such a management was considerable; although that issue would come up under another agenda item, he wished to mention that the choice to be made would have a profound impact on the Organization's success and that personal qualifications must be the paramount criteria.

33. Mr. TANAKA (Japan), commenting on the financial situation of UNIDO (sub-item (d)), said that he was pleased to note that the cash-flow position regarding assessed contributions to the regular budget was satisfactory for the coming months; however, he was concerned at the present status and future prospects of operational budget income. The Board was faced with the dilemma of having to preserve the Organization's capacity for technical cooperation delivery while increasing its vacancy factor, as indicated in document IDB.10/27. In view of the critical situation, his delegation supported the

Organization's efforts to negotiate an earlier implementation of the successor arrangements with UNDP. Furthermore, he stressed that any staff cuts required should be made at all levels.

34. With regard to the medium-term plan (sub-item (h)), he said his delegation welcomed the consultations held under the leadership of the Chairman of the Programme and Budget Committee and shared the view that the central task for UNIDO was to provide assistance for small- and medium-scale industries in developing countries. The prioritization of UNIDO's activities was a difficult exercise, which explained why the Board had not succeeded in providing explicit guidance to the Secretariat on the issue. If the Organization wished to remain a useful agency in the field of industrial development, it had to decide, without further delay, on the central area for UNIDO activities, taking due account of changes taking place in the United Nations development system.

35. Lastly, referring to sub-item (i), he said that, as a major contributor to the Industrial Development Fund (IDF), his country was pleased to note the increasing effort being made in the Organization to pay greater attention to the relevance, cost-effectiveness and sustainability of the activities financed by that Fund. He welcomed the new methods introduced in the programming, appraisal, implementation, monitoring and evaluation stages relating to IDF programmes and projects. The Organization could not afford to finance projects which were uncoordinated, sporadically implemented or isolated from other projects, thus having little impact on the development of a country or region.

36. In conclusion, he said that much remained to be done, but that UNIDO should be given every encouragement in its efforts to improve the quality of its activities.

37. Mrs. ARCILLA (Observer for the Philippines), speaking on behalf of the Asian Group, said that, taking all factors into consideration, it would be in the best interests of the Organization for the Board to endorse the conclusions contained in document IDB.10/14, particularly conclusion 92/5. While the Asian Group was confident that the current situation was temporary, it also considered that flexibility balanced by economies was of paramount importance in order for the Organization to fulfil its ever-expanding mandates.

38. The prioritization of UNIDO's activities was very timely. Although no final decision had been reached during the inter-sessional consultations, they had provided a clear understanding of what needed to be done and thrown light on the areas of agreement and disagreement among Member States. UNIDO should respond to the new requirements dictated by the transformation in the world economy while maintaining its role as a technical cooperation agency for developing countries. In that connection, she considered that the guidelines and priorities set forth in the report of the Chairman of the Programme and Budget Committee (IDB.10/29) might serve as a basis for future negotiations.

39. As to the question of privatization, the Asian Group was ready to participate in efforts to reach a final agreement. None the less, it considered that the Organization should continue to focus on the five problem areas of the medium-term plan and its common elements, on the understanding that any decision on relative priorities would be provisional in nature. Regarding the relaxation of financial regulations 4.3 (a), (b) and (c) as proposed in document IDB.10/25, the Asian Group endorsed the recommendation of the Committee contained in conclusion 92/2 (IDB.10/14, para. 12). The shift in control by the policy-making organs from "subprogramme" to "programme" level was a step in the right direction. Referring to document IDB.10/26, she said that the Asian Group appreciated the efforts being taken by the Secretariat to economize on travel expenses and urged it to look into ways of making further savings. In conclusion, she endorsed the appeals of previous speakers for Member States to honour their financial commitments to the Organization.

40. Mr. BALAKRISHNAN (India), referring to the financial situation, stressed the responsibility of Board members to assist the Director-General in his efforts to cope with the crisis.

41. With regard to the External Auditor's report and the recommendations of the Programme and Budget Committee, he welcomed the proposed changes to financial regulations 4.3 and 3.4. He also endorsed the comments and recommendations made by the External Auditor on budgetary accounting and financial reporting procedures. He noted that steps had been taken towards the implementation of those recommendations and hoped that they would result in improving the overall efficiency of the Organization.

42. Regarding item 4 (c), he agreed on the need to take all possible measures to economize on travel costs; since action within the United Nations system would undoubtedly not be immediate, he welcomed UNIDO's efforts to apply existing regulations as economically as possible. As for item 4 (d), his delegation fully shared the concerns expressed regarding the payment of assessed contributions to the regular budget and would support additional measures to improve the collection of contributions from 1993 onwards. The operational budget also remained a cause of grave concern and all efforts should be made to finalize UNDP successor arrangements for agency support costs so that the operational budget could be stabilized at a reasonable level.

43. Under item 4 (e), his delegation had taken note of the various alternatives to the current split-currency system, but considered that an alternatives system based on constant dollars might not necessarily prove better. The experience of the Geneva-based organizations in particular had shown that a budget based solely on dollars could prove extremely vulnerable to exchange-rate fluctuations. Given the instability in exchange rates, he considered that the split-currency system of assessment, with some modifications, would be the best choice. However, it should be subject to regular review.

44. Turning his attention to item 4 (g), he welcomed the efforts by the Director-General and the Secretariat to prepare a revised bulletin on guidelines and procedures governing acceptance and funding under special trust funds, IDF and the regular budget. He hoped that the guidelines would facilitate the implementation of projects and the finalization of new projects by recipient countries. He had also taken note of the point made in paragraph 5 of document IDB.10/10

regarding the Standard Basic Cooperation Agreement. In that regard, the Secretariat could perhaps elaborate on the factors which had inhibited the Agreement's wider acceptance and indicate whether a revision of the Agreement would be worthwhile.

45. Referring to item 4 (h), he said that his delegation had actively participated in the informal consultations on the question of priorities within the medium-term plan, and that its views were broadly reflected in the statement of the Chairman of the Group of 77 (see document IDB.10/29, annex). As for PBC conclusion 92/10, he reiterated his delegation's opposition to the zero real growth philosophy, particularly in view of the lower rate of payment of assessed contributions. If zero real growth were to be adopted for the 1994-1995 biennium, it must be accompanied by effective measures to ensure the full payment of assessed contributions, preferably within the first half of each year. The Organization was constantly being given new tasks and must be provided with adequate funding in order to perform them. It was hoped that major donor countries would make special efforts to increase their voluntary contributions to UNIDO's programmes.

46. Regarding item 4 (l), the UNIDO Country Director programme was of considerable importance to the developing countries and all possible measures should be taken to meet the target of 50 posts in the foreseeable future. He hoped that the UNDP Governing Council would reconsider the allocations for UCDs in its fifth programming cycle.

47. Lastly, with regard to item 4 (i), he welcomed the Secretariat's efforts to reach the annual funding target of $50 million as soon as possible and hoped that Member States would cooperate accordingly. As a donor and recipient in projects financed by IDF, India had made regular and substantial contributions to the Fund in past years. It was pleased to renew its commitment to contribute the equivalent of $1 million to the Fund during 1993.

48. Mrs. SIRIPANUWAT (Thailand), speaking on behalf of the Asian Group, said that, in view of the great importance of UNIDO Country Directors in the enhancement and strengthening of the Organization's activities, the Group was very concerned to note that the current financing arrangements were expected to result in a reduction of up to 16 UCD posts funded by UNDP sectoral support by 1996. The number of UCD posts should be gradually increased to reach the target of 50 set forth in Board decision IDB.8/Dec.14 and endorsed by the General Conference in its resolution GC.4/Res.4, or at least be maintained at the existing level. That could be achieved only through financing from an appropriate combination of sources including, in particular, UNDP, and she therefore fully supported the continuation of negotiations with UNDP to achieve the maximum number of UNDP-financed posts for the fifth programming cycle. The Asian Group wished to request the UNDP Governing Council at its forthcoming session in February 1993 to take appropriate action in the following areas: to consider approving an increase in the annual allocation for the UCD programme in order to permit the maximum possible number of UCD posts; to authorize an adjustment in the yearly allocation within the total resources approved for sectoral support, as an interim measure, in order to allow UNIDO to maintain the current number of 26 UNDP-financed UCD posts for the biennium 1992-1993; and to consider including the question of the funding of the UCD programme in the review on sectoral support due to be carried out in 1993. In view of UNDP's own restrictions regarding increases in contributions, UNIDO would have to mobilize still further resources in the future to offset inflation and achieve the target of 50 UCD posts. The intention of the Secretariat on a trial basis to combine the functions of UCDs with those of the regional advisers, and to consider the appointment of national senior officers as national UCDs, was therefore welcomed. In conclusion, the Asian Group wished to endorse the recommendation made by the Programme and Budget Committee in its conclusion 92/13.

49. Mr. MARTIN (United States of America) said that the consultations conducted by the Chairman of the Programme and Budget Committee concerning the prioritization of UNIDO's activities, as a means of helping the Organization adapt to its worsening financial environment, represented a crucial step in addressing the extraordinary crisis facing UNIDO. If UNIDO was to be able to propose a budget and a medium-term plan that were reasonable in present circumstances, it needed general guidance from Member States as to which functions were most important. The medium-term plan was not a suitable instrument for making decisions in such a situation. What was needed was an instrument that recognized differences in activities, a need that had been acknowledged by the Programme and Budget Committee when it had accepted UNIDO's ranking of its programme instruments (PBC.8/18). The medium-term plan to be approved at the ninth session of the Committee, while reflecting the important areas that Member States had designated as "priorities", could nevertheless recognize different levels of resources that UNIDO should commit to the functions with which it pursued those "priorities". Member States' discussions on the proposed 1994-1995 budget, which would of necessity reflect their views as to which of UNIDO's programmes were most essential, needed to result in decisions that were as rational as possible in terms of UNIDO's mission.

50. With regard to the financial situation of the UNIDO Country Director programme, his delegation believed that UNIDO should continue its negotiations with UNDP for increased funding and continue to request voluntary contributions. Also, in the current period of budgetary stringency, the cost-effectiveness of the UCD programme should be carefully evaluated in terms of the overall country resources managed by each UCD in relation to the overhead costs required to maintain each individual UCD in situ. Currently, it would be inappropriate to consider reprogramming regular budget funds or making additions to the regular budget for the UCD programme.

51. Mr. POPESCU (Romania) said that his delegation had learned with concern of the status of unpaid assessed contributions to the regular budget as at 30 September 1992. His delegation had also noted the measures recommended to balance the operational budget as soon as possible, at the latest by the end of 1993. His delegation fully supported the measures proposed by the Programme and Budget Committee in its conclusion 92/5 (IDB.10/14, para. 16) and had noted that, as requested in that conclusion, additional measures

were already being reviewed by the Director-General to achieve a stabilized operational budget before the end of 1992. In view of the information provided by the Committee and the Director-General, his delegation supported adoption by the Board of the draft decision on the financial situation as proposed in document IDB.10/27.

52. Despite its very difficult economic and financial situation, his Government had already paid all its outstanding contributions to the regular budget prior to 1992.

53. His delegation was able to endorse all the other conclusions and recommendations in the Committee's report and the relevant Board documents.

54. He would return to the question of item 4 (l) (UNIDO Country Director programme) when the Board came to consider item 8 of its agenda.

55. Mrs. WIIG (Norway) said that the situation arising from the continued delays in the payment of assessed contributions was a matter of serious concern to her delegation. That situation placed the Secretariat in an intolerable position and made long-term planning very difficult and prudent management of resources virtually meaningless.

56. Furthermore, non-payment by so many Member States placed an obviously unfair burden on those Member States that did meet their financial obligations. In a document before the present session of the General Assembly, the Secretary-General of the United Nations had introduced a proposal to charge interest on unpaid balances. Norway had supported that proposal and would welcome the adoption of a similar proposal by UNIDO. Early payments by some Member States should not be used to subsidize those members with a poor payment record. Norway would support decisive action on that issue at the present session of the Board.

57. Mr. WARNER (Deputy Director-General, Department of Administration), replying to questions, said that the United Kingdom representative, speaking on behalf of the European Community at the previous meeting, had asked for a breakdown by department of vacant posts against the forecast used as the basis for the 1992-1993 programme and budget. The Secretariat had now supplied the United Kingdom representative with the most recent printout of vacancies by department, which could also be distributed.

58. The percentages under the operational and regular budgets were as follows: general management and operational budget (Professional capacity), 25 per cent; programme and project development, 13.8 per cent; industrial promotion, consultations and technology, 33 per cent; industrial operations, 42 per cent; administration, 16.6 per cent.

59. The figures for vacancies in the Professional category under the regular budget were: general management (Major Programme 200), 5.8 per cent; programme and project development, 10.3 per cent; industrial promotion, consultations and technology, 14 per cent; industrial operations, 10 per cent; external relations, public information, language and documentation services, 26.7 per cent; and administration, 21.2 per cent.

60. The percentage for the regular budget (Professional category) averaged out at 14.8 per cent at 30 October 1992, and that for the operational budget (Professional category) at 24.7 per cent. For the General Service category the figures were 24 per cent for the regular budget and 6.4 per cent for the operational budget. It was important to note that a significant portion of the regular budget General Service posts in the Department of Administration were cost-shared.

61. In reply to the question concerning redeployment to fill higher priority posts, he said that the Secretariat was guided by General Conference resolution GC.4/Res.29, paragraph 2 (b). During the current year, the Organization had been able to reassign 27 Professional staff members, approximately matched by 29 Professional staff members separated by attrition. In addition, a reasonable percentage of General Service staff members had been redeployed, mainly through internal advertising of posts.

62. With regard to the reduction of staff, 29 staff in the Professional category, as he had said, had already left in 1992. That trend would continue and the vacancy rate would probably increase.

63. Regarding additional measures taken to balance the operational budget in line with PBC conclusion 92/5, expenditure on non-staff items such as travel, consultants and ad hoc expert group meetings had been held below allotted levels and vacancy factors for both Professional and General Service staff had been increased following the conclusion of the eighth session of the Programme and Budget Committee. In issuing allotments for 1993 the Director-General would, in addition to reduced expenditure levels foreseen through lower staffing, restrict the use of resources for non-staff expenditures to the minimum required to maintain programme viability including technical cooperation delivery.

64. It was essential to realize, in connection with the separation of staff under staff regulation 10.3, that the overall cost of separations increased when staff had been under contract to the Organization for a longer period.

65. On the question of which departments had been most affected by the vacancy rate, he said that the highest vacancy rate in the Professional category under the regular budget was in external relations and in the Department of Administration, where the rate was over 20 per cent. The other major programmes averaged 10 or 12 per cent, with the exception of general management, where the staff was smaller and the percentage lower.

66. As to the Director-General's priorities for using the injection of cash represented by the recent payment received from the United States, the sum would cover the immediate regular budget requirements for October, November and December. In addition, in accordance with the financial regulations, a contribution of $3 million would be made to the Working Capital Fund.

67. As to how the 88 per cent of programme allotments issued for 1992 tied in with the statutory withholding of 15 per cent, he said that the Secretariat had to foresee in its cash-flow statements what the receipt of assessed contributions would be; periods began with a 15 per cent hold back to which adjustments had to be made depending on the availability of resources. In particular, arrangements could be liberalized to assist programme management in

keeping to delivery schedules. He thought it was generally accepted that flexibility was needed and that such matters should be tackled on the basis of the resources available.

68. As to the question of the expected deficit of nearly $6 million in the balance of reserves for operational activities, the Secretariat would continue to monitor and restrain all non-staff costs as far as possible without making significant inroads into the Organization's capacity for programme delivery. At the same time, the timing and nature of the statutory and non-statutory use of operational reserves had to be carefully respected. Stabilization involved dealing with the excessive vacancy rates and the potential for the reduction in staff under the provisions of staff regulation 10.3. To the extent that income projections allowed, the Secretariat would do all possible to avoid separations. However, Member States had made it clear that the Organization had to respect the purposes of the operational reserves and therefore, should it be necessary under the stabilization programme, those funds would be used for the purposes intended.

69. It had been asked which problems in the industrial development process the Secretariat felt that UNIDO should tackle first at a time of scarce resources. That was a broad question, and an answer would depend, for example, on whether the approach was to be regional or to include sectoral criteria and whether developing countries only were to be considered, or whether all countries with IPFs should be considered. It was also a time-frame question; needs of Member States would vary from one period to the next. The Organization's long-standing role had been that of delivering technical assistance at the micro level, unlike the World Bank and other institutions within the multilateral system. It also had to be realized that priorities constantly changed. As regards the question of UNIDO's comparative advantage, such areas as privatization, technical cooperation, technical assistance, investment, human resource development and institution-building would come under consideration. A substantive reply to the question would call for an annual analysis of Member States' needs. Those needs would vary widely from one State to another, and the question thus opened up a broad horizon of discussion and raised issues such as the level of resources contemplated and the number of development processes that should be tackled in view of scarce resources. If a partly sectoral answer was desired, it could be said that leather, textiles, wood and cement programmes, for example, were highly valued in many Member States. Service skills, such as skills in the areas of investment and feasibility, purchases and contracts and industrial statistics, could also be mentioned.

70. The question of whether the provision of personal computers to staff in the Organization would result in savings through reductions in General Service staff support costs had been widely discussed over a period of several years by highly qualified consultants and experts provided by Member States and by the Secretariat. Savings would be achieved in the long term. The time periods within which such savings could be made and staffing levels thus controlled was dependent on the level of training, the productivity of individual staff members, the nature of the programme concerned and the degree to which it lent itself to computerization, etc. The statistics for the Department of Administration alone over the last 18 months showed considerable increases in efficiency, as would be seen when the budget for the biennium 1994-1995 was submitted.

71. It might be desirable to make a clarification in connection with the statement of the representative of Mexico that UNIDO's financial crisis was unparalleled in the United Nations system. While the seriousness of the situation was not in doubt, it was important to note that the only obligations of UNIDO, as reported in its cash-flow statements, were minor unpaid operating obligations at the end of a given year; the Organization did not borrow, unlike other institutions in the multilateral system. A balance-sheet evaluation would therefore show UNIDO in a reasonably favourable light.

72. In response to the request made by the representative of Turkey for additional information on UNIDO's expected income up to 1995, the figures for 1994 and 1995 would have to be completed and presented in a draft budget document in December. The 1993 income figures for the operational budget were comparable to the 1992 levels, possibly with a slight improvement as a result of a delay in the successor arrangements, meaning that TSS-1 would basically be a 1993 programme and the bulk of the income would be received in that year.

The meeting rose at 5.30 p.m.